

BUILDING A
SUSTAINABLE
FUTURE:



conversations with Alaskans

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Fiscal and Revenue Options

Presentation to Fairbanks Conference

June 6, 2015

**Randall Hoffbeck, Commissioner
Alaska Department of Revenue**

Fiscal and Revenue Options for Alaska



Potential Fiscal and Revenue Options for the Walker-Mallott Administration

Alaska Department of Revenue White Paper

6/4/2015

Fiscal and Revenue Options for Alaska

These are difficult times.
These are challenging times.

These are also times of great opportunity.
These are times when we each can make a
lasting difference.

This is a time of crisis only if we fail to act.

Excerpt from the speech "Citizenship In A Republic"

Theodore Roosevelt

Paris, France on 23 April, 1910

It is not the critic who counts; not the man who points out how the strong man stumbles, or where the doer of deeds could have done them better. The credit belongs to the man who is actually in the arena, whose face is marred by dust and sweat and blood... who at the best knows in the end the triumph of high achievement, and who at the worst, if he fails, at least fails while daring greatly, so that his place shall never be with those cold and timid souls who neither know victory nor defeat.

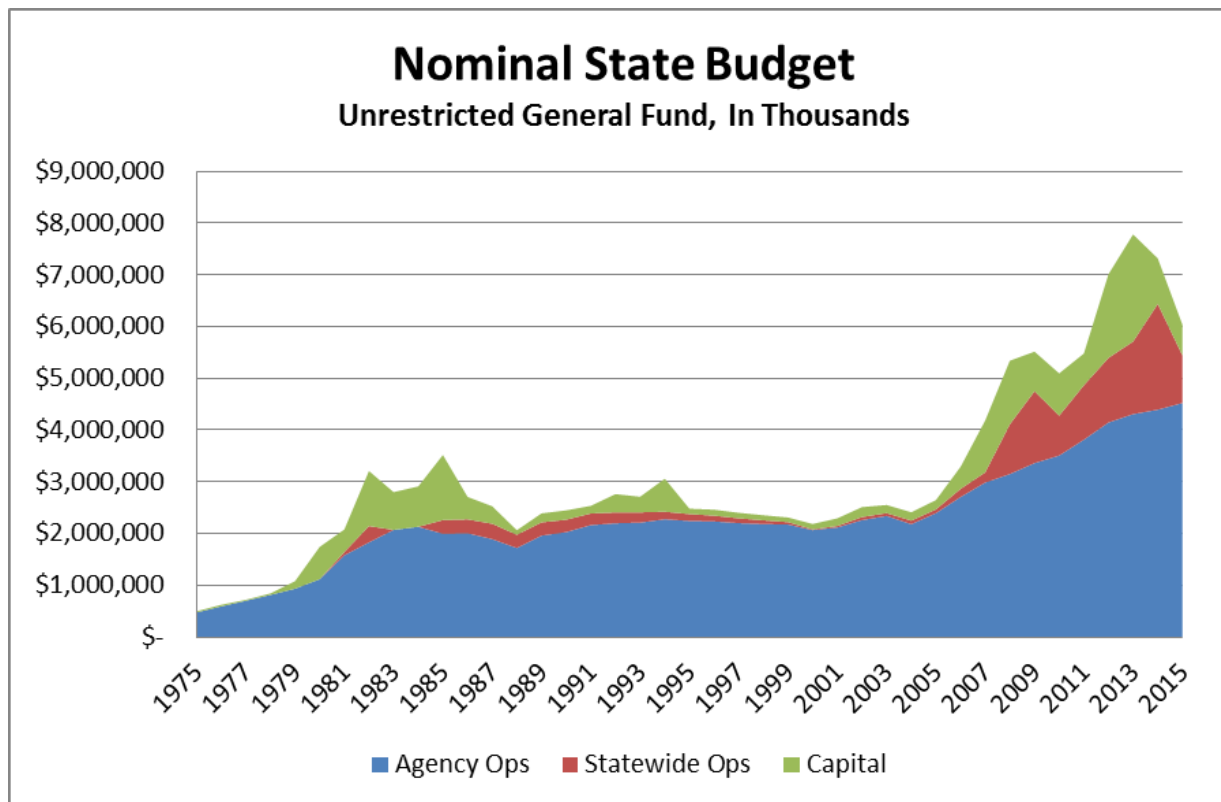
What I'll Be Discussing

Debunk a Few Myths

Begin Modeling a Solution

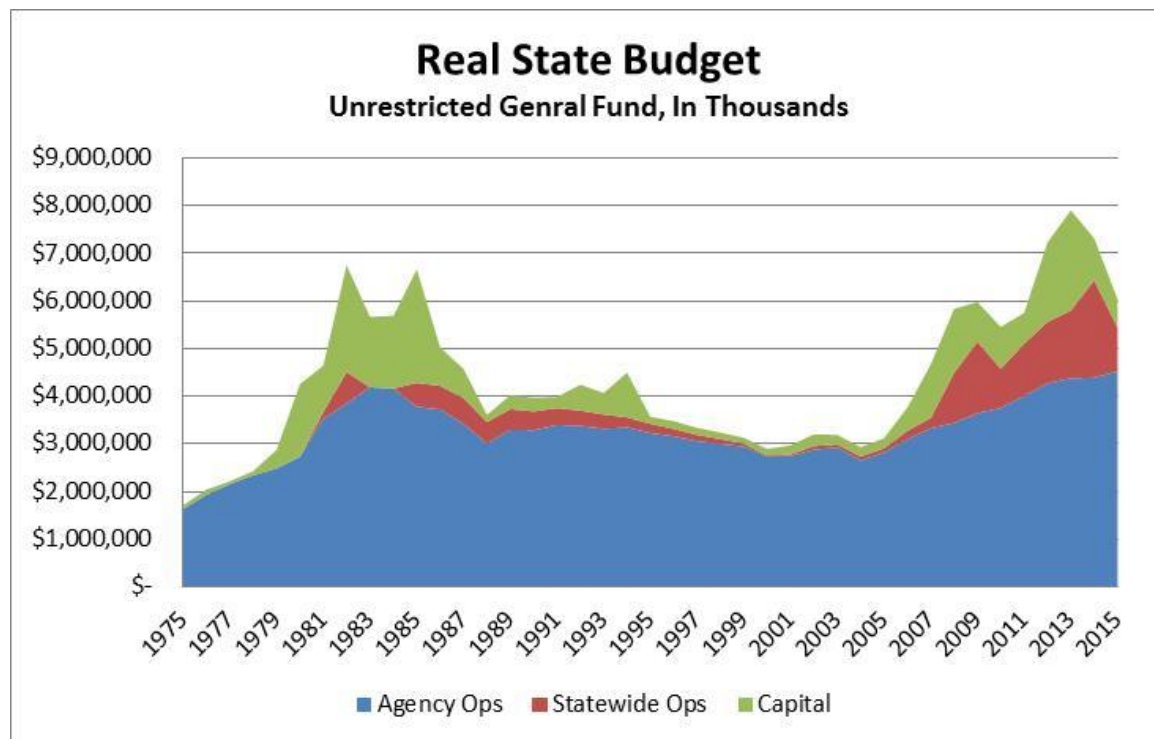
Options for Balancing the Budget

Myth #1: We Can Cut our Way to a Balanced Budget



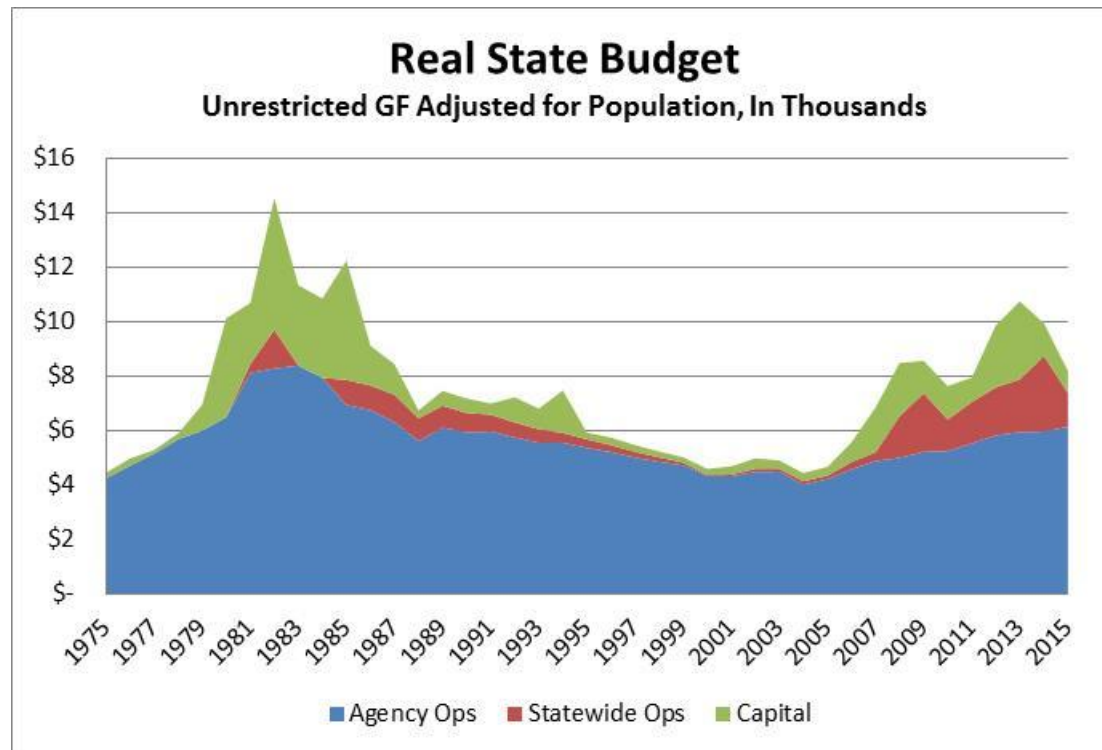
In nominal terms, the General Fund budget has increased steadily over time and steeply since the mid-2000's

Myth #1: We Can Cut our Way to a Balanced Budget



Adjusted to “real” or “constant” dollars, budgets declined for 20 years and only recently reached levels that exceeded the post-pipeline period

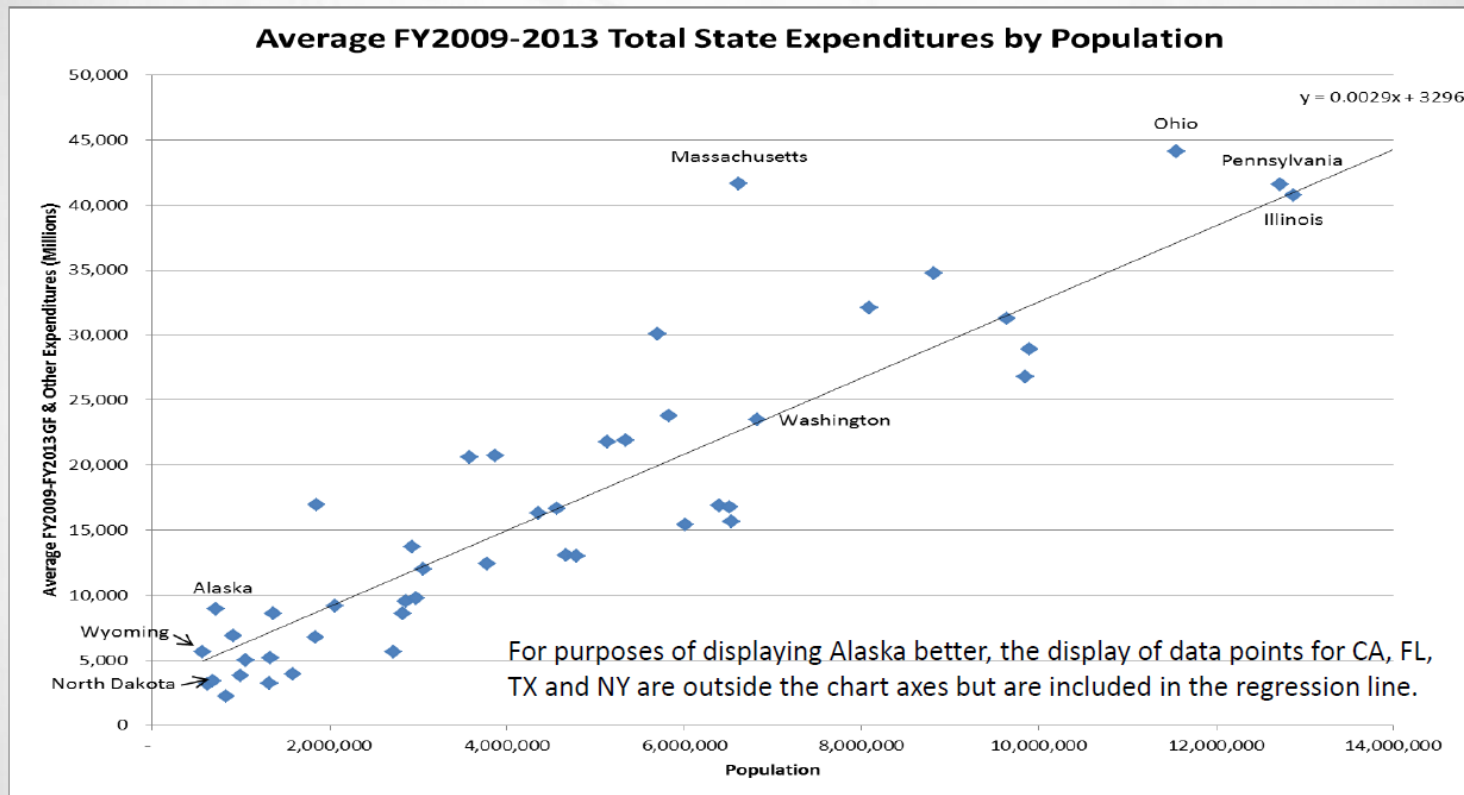
Myth #1: We Can Cut our Way to a Balanced Budget



Adjusted for inflation and population, the current budget is lower than most years during the post-pipeline boom

Myth #1: We Can Cut our Way to a Balanced Budget

Average Total State Expenditures



Myth #1: We Can Cut our Way to a Balanced Budget

Governor Protected Life, Health & Safety. (\$2 billion)

What is Missing:

- Education (All Foundation Formula) (\$1 billion)
- HSS (Half of Expected Cost) (\$550 million)
- Public Retirement Contributions (\$250 million)
- Oil and Gas Tax Credits (\$700 million)

What is Still Missing:

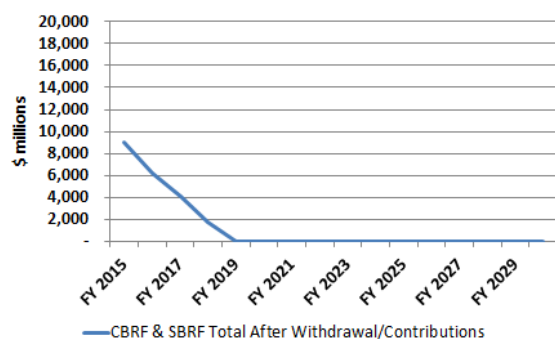
- General Agency Spending (Funded at 27%)

Myth #2: Higher Oil Prices will Save Us Again

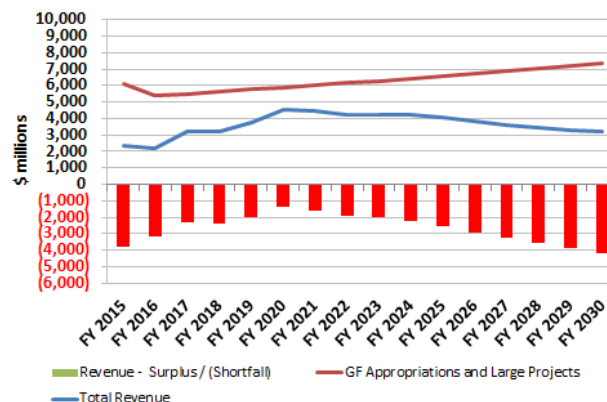
| FY16 General Fund Revenue (\$billions) | | | | |
|--|-----------------|---------|---------|---------|
| Budget = \$5.2 Billion | | | | |
| Price of Oil | Barrels Per Day | | | |
| | 500,000 | 600,000 | 700,000 | 800,000 |
| \$40 | \$1.5 | \$1.7 | \$1.9 | \$2.1 |
| \$50 | \$1.8 | \$2.1 | \$2.3 | \$2.6 |
| \$60 | \$2.0 | \$2.3 | \$2.6 | \$2.9 |
| \$70 | \$2.3 | \$2.7 | \$3.0 | \$3.4 |
| \$80 | \$2.6 | \$3.0 | \$3.4 | \$3.9 |
| \$90 | \$3.4 | \$4.0 | \$4.6 | \$5.1 |
| \$100 | \$4.3 | \$5.1 | \$5.8 | \$6.6 |
| \$110 | \$5.2 | \$6.1 | \$7.1 | \$8.0 |
| \$120 | \$6.0 | \$7.1 | \$8.2 | \$9.3 |

Introduction to Revenue Model

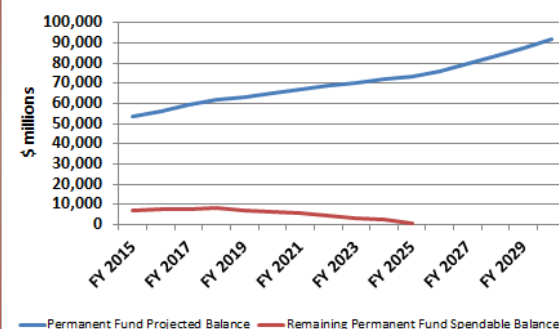
CBRF & SBRF Balance



Budget Overview



Permanent Fund Balances



Revenue Options

| | |
|-----------------------------|-------------------|
| Inflation Assumption | 2.25% |
| Long Run Price Of ANS Crude | Official Forecast |

Financial

| | |
|--|--|
| PERS/TRS "Net" Arbitrage Bonds | <input type="checkbox"/> Add |
| Current PF Revenue Methodology | <input checked="" type="radio"/> Status Quo PF Revenue Methodology |
| Percentage of Market Value | <input type="radio"/> Implement POMV Methodology |
| POMV @ X% | 4.0% |
| State Share of PF Revenues | 0% |
| PFD Cap | No Cap |
| SB 114 | <input type="radio"/> Implement SB 114 |
| Collateralization Revenues | <input type="checkbox"/> Implement |
| Loan to Value Ratio | 20% |
| Securitization Revenue (Only When Collateralization Enabled) | <input type="checkbox"/> Implement |

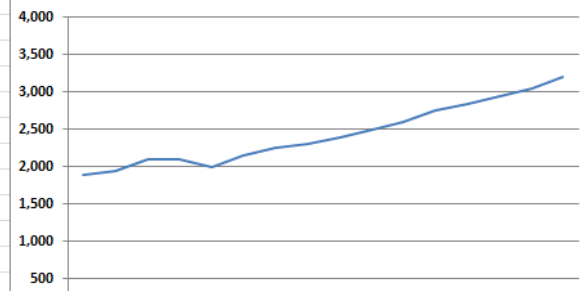
Petroleum

| | |
|---|-------------------------------------|
| Flat Tax for Non-CIT Petroleum Companies | <input type="checkbox"/> Add |
| Net Severance Tax - Additional Revenue | |
| Net Severance Tax - Current Base Rate 35% | <input type="checkbox"/> Change 35% |
| Gross Value Reduction | <input type="checkbox"/> Remove |

Fund Changes

| | |
|--|--------|
| Total Cuts From Budget (In Billions) | \$0.00 |
| Total additional revenue generated (In Billions) | \$0.00 |

Individual PFD Values

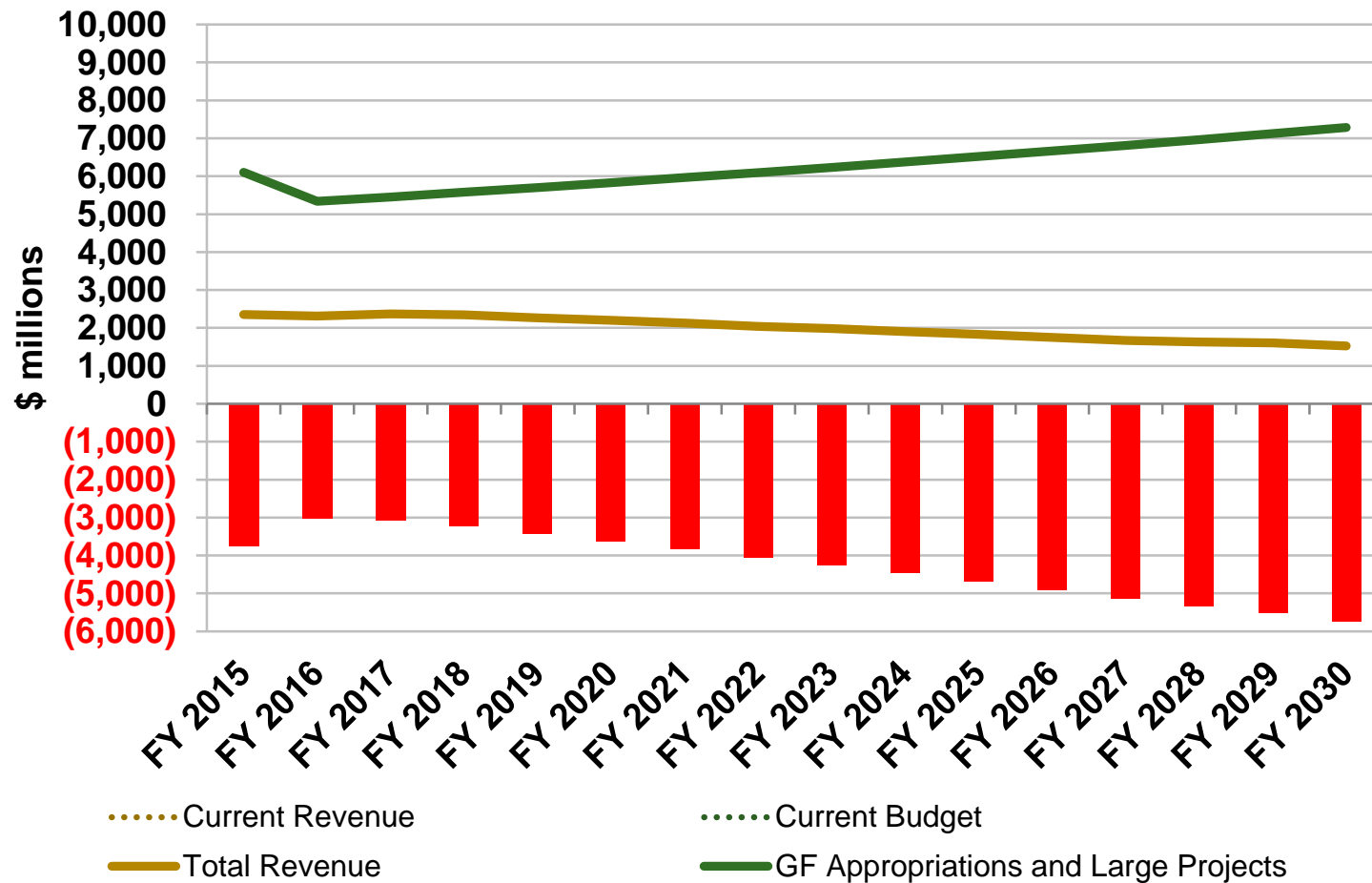


Budget Options

| State Budget General Funds Unrestricted | |
|--|-----------------------|
| DEPARTMENT OF "" | DEPARTMENT CUT AMOUNT |
| Administration | 0% |
| Commerce, Community and Economic Development | 0% |
| Corrections | 0% |
| Education and Early Development | 0% |
| Environmental Conservation | 0% |
| Fish and Game | 0% |
| Health and Social Services | 0% |
| Labor and Workforce Development | 0% |
| Law | 0% |
| Military and Veterans' Affairs | 0% |
| Natural Resources | 0% |
| Public Safety | 0% |
| Revenue | 0% |
| Transportation and Public Facilities | 0% |
| University of Alaska | 0% |
| Office of the Governor | 0% |
| Branch-wide Unallocated Appropriations | 0% |
| Alaska Court System | 0% |

Balancing the Budget

Budget Overview



Balancing the Budget?

Repurposing Financial Assets

- Pension Obligation Bonds
- Permanent Fund Earnings
- Permanent Fund Dividend Cap
- Collateralization & Securitization

Balancing the Budget?

Modify Oil and Gas Taxes

- Base Rate
- Minimum Tax
- GVR (New Oil Rate)
- Cook Inlet Production Taxes
- Hazardous Release Surcharge
- Natural Gas Reserves Tax

Balancing the Budget?

Modify Oil and Gas Credits

- North Slope Reimbursable Credits
- Per Barrel Credit
- Cook Inlet Reimbursable Credits

Balancing the Budget?

Modify Non-Oil and Gas Taxes

- Corporate Income Tax Rate
- Mining Taxes
- Fisheries Taxes
- Motor Fuel Taxes
- Sin Taxes

Balancing the Budget?

Add New Taxes

- Health Care Provider Tax
- Business License/Gross Receipts Tax
- Income Tax
- Capital Gains Tax
- Payroll/School Tax
- Sales Tax
- Statewide Property Tax

Balancing the Budget?

- Lottery/Gaming
 - State Lottery
 - Permanent Fund Lottery
 - Gaming Rates
 - Card Rooms
 - Casinos

Conclusions

There are no easy answers to balancing a \$3 billion annual deficit.

May take a combination of four things:

1. Continued budgetary restraint
2. Taxes impacting individual Alaskans
3. Changes to oil and gas taxes
4. Strategic use of our legacy assets

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